



Alibaba Group
June Quarter 2021
Results Conference Call

Tuesday, 3rd August 2021

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good day, everyone. And welcome to Alibaba Group's June Quarter 2021 Results Conference Call. With us today are Daniel Zhang, our Chairman and CEO; Joe Tsai, Executive Vice Chairman; and Maggie Wu, our Chief Financial Officer. This call is also being webcast from our IR section of the corporate website. A replay of the call will be available on our website later today.

Now let me quickly cover the Safe Harbour. Today's discussion may contain forward-looking statements. Forward-looking statements involve inherent risk and uncertainties that may cause actual result to differ materially from our current expectations. For detailed discussions of these risks and uncertainties, please refer to our latest Annual Report on Form 20F and other documents filed the US SEC or announced on the website of the Hong Kong Stock Exchange.

Any forward-looking statements that we make on this call are based on assumptions as of today and we do not undertake any obligations to update these statements except as required under applicable law. Please note that certain financial measures that we use on this call, such as adjusted EBITDA, adjusted EBITDA margin, adjusted EBITA, adjusted EBITA margin, Commerce adjusted EBITA before strategic investments¹, non-GAAP net income, non-GAAP diluted earnings per shares, or ADS, and free cash flow are expressed on a non-GAAP basis. Our GAAP results and reconciliations of GAAP to non-GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all stated metrics mentioned during this call refers to year-over-year growth versus the same quarter last year.

In addition, during the call, management will give their prepared remarks in English. A third-party translator will provide simultaneous translation in Chinese on another conference line. Please refer to our press release for details.

During the Q&A session, we will take questions in both English and Chinese and a third-party translator will provide consecutive translation. All translations are for convenience purpose only. In case of any discrepancies, management's statements in the original language will prevail.

With that, I will now turn the call to Daniel.

¹ The financial measure should be "Commerce adjusted EBITA before key strategic investments".

June Quarter 2021 Highlights

Daniel Zhang

Chairman & CEO, Alibaba Group

(Original)

Thanks, Rob. Hello everyone. Thank you for joining our earnings call today.

We started the fiscal year with a strong quarter. Over the past 22 years, Alibaba has grown into a company encompassing consumer internet and industrial internet, with multiple engines driving our long-term growth.

In consumer business, we operated the largest consumer marketplace globally with 1.18 billion annual active consumers as of June 30, 2021. During the first fiscal quarter, our annual active consumers grew from 890 million² to 912 million in China, and from 240 million³ to 265 million outside of China, representing quarterly net adds of 45 million in total. At the beginning of this fiscal year, we announced the plan to invest all of our incremental profits this year into core strategic areas, such as technology innovation, support programs for merchants to lower their operating cost, user acquisition and experience enhancement, merchandising and supply chain capabilities, infrastructure development and new business initiatives. They were designed to enlarge our total addressable market, differentiate consumer and merchant value propositions from our competitors, and generate greater consumer engagement and purchase frequency. Now I would like to share an update on the business progress in these strategic areas.

For our China Retail Marketplaces, a key strategic area for our incremental investments is to evolve from one "super app" of Mobile Taobao into a multi-app product matrix. We are glad to see Taobao Deals' progress in user acquisition in less developed areas, contributing to over 10 million of our new AACs during the quarter, thanks to its best value-for-money value proposition. Idle Fish, which is expanding from a marketplace for second-hand products trading to a consumer-to-consumer community-based marketplace for products and services, reached over 100 million app MAUs during the quarter. Mobile Taobao, our flagship app for China Retail Marketplaces, is focusing on creating a more engaging shopping and discovery experience while satisfying diversified consumer demands with the most comprehensive product offerings.

New retail is another strategic area for our incremental investment, where we have built a multi-format business model to serve a wide range of consumer needs. Today, our consumers can enjoy one-hour door-step delivery of products ordered online through Freshippo and Taoxianda, or same-day/next-day delivery of groceries purchased from Tmall Supermarket, or order value-for-money products delivered next day to neighborhood pick-up points. We believe such multi-format, multi-service-level new retail infrastructure built on a highly efficient digitalized supply chain and fulfilment model can best satisfy the diversified demands of

² "891 million" was mistakenly stated as "890 million" on the call.

³ "Approximately 240 million" was stated as "240 million" on the call.

different consumer segments in different regions. Our Community Marketplaces business grew approximately 200% quarter-over-quarter in terms of GMV, while we expanded the gross floor area of our regional distribution centers at a faster rate at 260% quarter-over-quarter to provide better logistic support for business growth. We view Community Marketplaces not as an independent market segment but one of the multiple business formats in new retail, which is meaningful to us for continuous consumer acquisition and engagement. In the past few months, Chinese regulators have issued rectification requirements against community marketplace players selling below cost, which hurts the market integrity and community livelihoods. We have paid full attention to the regulatory requirements and will continue to operate with discipline. We are committed to building a sustainable digital community marketplace which improves livelihoods and creates incremental values for our consumers.

In local consumer services, we completed an important organizational upgrade and formed a business matrix consisting of Ele.me, Amap and Fliggy. Ele.me and Amap will be our major consumer entry points for local services “to home” and “to destination”, respectively. During the quarter, Ele.me achieved strong order growth of over 50% year-over-year. We will continue to increase our investments in Ele.me, especially to grow the contribution of non-meal categories and to further enhance our operating efficiency. Amap, after years of investment, is evolving from a map service provider to an important entry point for consumers’ discovery of local services near their destinations. Today, our consumers can find a wide range of services in Amap, such as ride hailing, fuel services, hotel booking, tourist attraction ticketing, and so on. During this fiscal year, we expect to attract over 100 million transacting consumers in Amap across the destination-based local services. Fliggy, our vertical business for travel services, will focus on organizing high quality supply of hotel rooms, transportation and tourist attraction services for consumer platforms such as Amap and Alipay, to further expand its penetration in our more-than-900-million annual active consumer base⁴ in Alibaba ecosystem.

In our international market, we continued to see strong growth in both revenue and AAC across our consumer-facing businesses, achieving 265 million AACs, over RMB10 billion revenue and 54% year-over-year revenue growth during the quarter. Lazada recorded over 90% year-over-year order growth for the quarter, with Indonesia and Vietnam achieving the highest growth of over 100% year-over-year. AliExpress continued strong momentum in its major markets such as Spain, France and Russia, leveraging the improved cross-border logistic solutions in partnership with Cainiao. However, as the European Union recently abolished the VAT exemption for imported goods below EUR22 effective on July 1, 2021, we expect AliExpress’ business growth in Europe will be negatively impacted starting in the September quarter. Over the long term, we remain confident towards the growth prospects for our international retail market and will continue our commitments to invest in this area.

Cainiao, the digital logistic infrastructure operator for our consumer business, delivered another solid quarter with over RMB10 billion revenue and revenue growth of 50% year-over-year, which is an indicator of healthy business development across multiple segments. In consumer logistics segment, Cainiao Post, an important network of consumer-facing logistics service

⁴ “More-than-900-million annual active consumer base” refers to that during the first fiscal quarter, the number of Alibaba’s annual active consumers was 912 million in China.

points, continued to process increasing volume of packages. Cainiao Post operators also see new business opportunities in our Community Marketplaces business, which offers the potential to expand their roles from logistic service providers to community group promoters. In supply chain segment, Cainiao sees a major business opportunity in providing manufacturers with highly efficient supply chain and logistic services alongside the rapid growth of Taobao Deals. In global logistics segment, Cainiao's development of cross-border export logistic network from China to our major markets in Europe significantly improved the logistics experience for our users on the ecommerce platforms, which supported further business volume growth in ecommerce and logistics in a virtuous cycle.

Alibaba Cloud's revenue increased by 29% year-over-year during the quarter, primarily driven by robust growth in revenue from customers in the Internet, financial services and retail industries. From a product perspective, solutions for storage, analytics, learning, efficiency and safety use of data were among the important growth engines for AliCloud and delivered higher revenue growth than the overall business, reflecting common demands by enterprise customers as cloud infrastructure (IAAS) replaces traditional IT infrastructure. Similar to the last quarter, the slower year-on-year revenue growth of Alibaba Cloud was primarily due to revenue decline from a top cloud customer in the Internet industry, which has stopped using our overseas cloud services due to local regulatory requirements. Excluding the revenue from this customer, Alibaba Cloud's revenue growth this quarter would be close to 40% year-over-year. As an important partner to the International Olympic Committee, Alibaba's cloud solution in collaboration with Olympic Broadcasting Services (OBS) supported service delivery for Rights-Holding Broadcasters (RHBs) for the first time during the Olympic Games Tokyo 2020, transforming how the Olympic Games are broadcasted to the world since Tokyo 1964.

Other than the updates on our business side this quarter, I believe our investors would be even more focused on the recent regulatory changes in the China internet industry and the expected impact on Alibaba. We are in the process of studying the regulatory requirements, evaluating the potential impacts on our relevant businesses and we will respond positively with actions. We believe all these new regulations aim to foster the healthy development of the internet industry over the long run, in the context of China's economic growth and livelihoods improvement. This is consistent with Alibaba's long-term mission and vision, to serve SMEs with digital technology, to serve the underprivileged groups, and to serve our consumers' demands for a better life. We continue to stay optimistic about the long-term potential of China's economy and the long-term growth prospects of Alibaba. We will fulfill our responsibilities as a platform in accordance with the regulatory requirements, and continue to carry out our commitments to be a good company that creates long-term value for the society in China and globally.

Thank you all! Now, I will turn it over to Maggie who will walk you through the details of our financial results.

Financial Highlights

Maggie Wu

CFO, Alibaba Group

(Original)

Thank you, Daniel. Hello, everyone. Let me start with financial highlights for the June quarter. We delivered a strong revenue growth of 34% year-on-year to RMB206 billion in this quarter, which is mainly driven by robust growth of our China commerce retail business, Cainiao logistics and international commerce businesses.

Total adjusted EBITA was RMB42 billion, a decrease of 8% year-over-year. Our main China retail marketplace businesses continue to generate solid profitability, but as discussed last quarter, we're investing our excess profits in key strategic areas and have increased spending in specific programmes designed to support our merchants.

For businesses other than commerce, we saw improving profitability of our cloud computing segments and narrowing losses for DME segment.

For June quarter, net income was RMB42.8 billion or USD6.6 billion. Non-GAAP net income was RMB43.4 billion or USD6.7 billion, up 10% year-on-year.

Alibaba has evolved into a multi-engine company with businesses across different runways and our revenue continues to be more and more diversified. During the quarter, customer management revenue contributed 39% of overall revenue, while it used to be on a much higher percentage of total revenue in the past years. We now have many more revenue streams from a diversified base of businesses that are also fast growing. Businesses such as Cainiao and international retail commerce grew 50% or more and were important drivers of our organic revenue growth.

Talk about the investment in key strategic areas. Within our commerce segment, we're investing in a number of key strategic areas to strengthen consumer experience, enhance loyalty, penetrate into less developed areas in China and further expand our presence internationally.

Now, let's look at the financial impacts of these investments during the quarter. First, Idle Fish and Taobao Live have achieved a robust user growth as we increased our investment in these growth businesses. We have also increased our spending as specific programmes throughout the quarter to support our merchants' operations in our China retail marketplaces. Service fees for several software tools designated to improve their marketing and business analytics capabilities were waived. Merchant logistics costs relating to customer returns were also significantly reduced. Combined impact of these investments resulted in a 6% growth⁵ to RMB60 billion in commerce adjusted EBITA before key strategic investments.

Commerce adjusted EBITA decreased to RMB45.6 billion. The decrease reflected that of investment in key strategic areas with combined losses increasing RMB8.7 billion year-over-year to RMB13.9 billion for the quarter. The primary areas of incremental investments were in

⁵ "6% growth" refers to year-over-year growth.

Community Marketplace, Taobao Deals, Local Consumer Services and Lazada, and other investment businesses. All of these businesses illustrated robust growth with key operating performances, as you can see in the slide, right hand side of the slide. Daniel just now also talked about all of these growth metrics.

As discussed on our call last quarter, we are committed to investing our excess profit into strategic areas within commerce, as they address new consumption demand and will continue to expand our addressable market in China. We believe these businesses have the potential to be the long-term revenue growth drivers that continue to catalyse our multi-growth engines in the future.

Now let's look at our overall cost trends for the quarter. Excluding SBC as a percentage of revenue, Cost of revenue ratio increased in the June quarter due to higher proportion of our direct sales businesses from the consolidation of Sun Art which resulted in increased cost of inventory. Our Cost of revenue⁶ excluding Sun Art and other 1P businesses was relatively stable comparing to the same period last year. These direct sales businesses will continue to strengthen our New Retail initiatives, especially in the development of our product sourcing capabilities.

Sales and marketing ratio also increased, which was primarily due to an increase in marketing and promotional spending for key strategic areas and growth initiatives. Also, these areas are focusing on user acquisition and engagement enhancement in our marketplace.

G&A expenses ratio remained stable at 3% during the quarter.

So, on revenue and EBITA by segments, this slide provides you with an overall summary of our segment revenue and profitability for the June quarter. Next, let me speak about our important segments.

So let's take a closer look at the revenue and profitability of our business segments. Commerce segment, first: CMR grew 14% year-over-year to RMB81 billion. This growth was primarily due to the growth of online physical goods GMV on our China retail marketplace. The growth also reflected the increase in revenue from new monetisation formats, such as recommendation feeds, etc.

China retail others revenue grew 82% year-over-year to RMB55 billion. This is due to the consolidation of Sun Art and strong growth from our direct sales businesses, including Tmall Supermarket and Hema.

Commerce adjusted EBITA decreased by 11%, primarily due to the investment we talked about just now.

Alibaba Cloud – the cloud revenue grew 29% year-over-year to RMB16 billion. Similar to last quarter, the slower quarterly revenue growth was primarily due to this revenue decline from a top cloud customer in the Internet industry that has terminated their relationship with respect to their international business due to non-product related requirements. Going forward, we believe that our cloud computing revenues will be further diversified across customers and industries.

⁶ "Cost of revenue" refers to "cost of revenue ratio".

Starting this quarter, we reclassified the results of our DingTalk business to the cloud computing segment. Because DingTalk remains in an investment phase, the reclassification of DingTalk's financials resulted in lowering of cloud computing profitability and did not materially add to revenue during the quarter. After incorporating DingTalk, Ali-Cloud still generated adjusted EBITA of RMB340 million.

Next, our DME. DME revenue during the quarter was RMB8 billion, reflecting an increase of 15% year-on-year. The increase was primarily due to the increase in revenues from Youku and Ali Pictures. Adjusted EBITA losses continue to narrow to RMB0.4 billion during the quarter. This was primarily due to improved quality of content that resulted in the reduced losses of Youku and Ali Pictures.

Now let's review some of the line items for selected financial metrics.

Interest and investment income was RMB14 billion in the quarter. The decrease was primarily due to the lower net gains arising from the fair value changes of our investments. The above-mentioned gains were excluded from our non-GAAP net income.

Share of results of equity method investees was RMB6 billion in the June quarter. The year-over-year increase was mainly due to the increase in share of our profit of our equity investment companies, including Ant and a range of other companies.

So that's the selected financial metric notes.

And for the quarter, net income attributable to ordinary shareholders was RMB45 billion or USD7 billion. Non-GAAP net income was USD7 billion, an increase of 13%⁷, mainly due to an increase in share of profit of equity method investees.

We continue to have a strong net cash position. As of June 30, cash and short-term investments were RMB471 billion, which is approximately USD73 billion. Free cash flow was RMB21 billion. The decline of approximately RMB16 billion year-over-year was driven mainly by the partial settlement in the amount of RMB 9.1 billion of the RMB18.2 billion anti-monopoly fine, which is a payment of the penalty, and increased spending in key strategic areas and growth initiatives.

Now, to conclude my prepared remarks, I would like to talk about three things. Number one, our guidance for the fiscal year remains unchanged. Number two, our investments in new strategic growth areas remain on target, and all the businesses we have invested are showing rapid growth. In the coming quarters, we will continue to invest additional capital into programs that support our merchants and developing new businesses in strategic growth areas that will help us increase consumer wallet share and penetrate into new addressable markets. Our strong profit and cash flow generation capability gives us the internal resources to focus on long-term value creation.

Number three, we are increasing our share repurchase program from USD10 billion to USD15 billion. This is the largest share repurchase program in the company's history, because we are confident of our long-term growth prospects. Since April 1 until now, we have repurchased approximately 18 million of our ADS for about USD3.7 billion.

Now, let's open up for Q&A. Thank you.

⁷ "An increase of 10%" was mistakenly stated as "an increase of 13%".

Q&A

Rob Lin:

(Original)

Hi everyone. For today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. And our management will address your questions in the language you asked. Please know that the translation is for convenience purposes only. In the case of any discrepancy, our management statement in the original language will prevail.

Thomas Chong (Jefferies):

(Translation)

Good evening and thank you for taking my questions. My first question has to do with the multi-app strategy that you mentioned in your prepared remarks. Taobao Deals has achieved excellent, robust growth in its user base. Could you tell us please what KPIs you have set for the future development of Taobao Deals in terms user base and monetisation?

Secondly, I'd like to ask about the recent media reports about the increased connectivity that is expected to be realised in the Internet industry. What is management's take on these reports, and the prospect of greater collaboration among the major Internet companies? Thank you.

Daniel Zhang:

(Translation)

Thank you. Let me take these two questions.

On your first question regarding Taobao Deals, as I said in my prepared remarks, in our China consumer business we are investing incremental profits into building a more complete app matrix, beyond Taobao Mobile. Our user base in China is over 900 million strong, and these 900 million users all have different preferences. In fact, the same user could well have different preferences in the context of different use cases. So, it's very important for us to be able to provide clearly-defined destinations for users, to serve different segments of consumers.

Taobao Deals has a crystal-clear value proposition, namely offering users the best value for money. It is this strong focus on price-sensitive consumers that has enabled Taobao Deals to grow so fast.

Within Alibaba's consumer matrix, an important objective of Taobao Deals is to help us grow the user base, adding incremental new users to the Alibaba consumer ecosystem, especially from the less-developed regions of China. And also, to cater to the demand of consumers when they're looking for value for money. So Taobao Deals is all about growing the user base and satisfying the demand of price-sensitive consumers.

And we're particularly pleased to note that the development of Taobao deals has already resulted in incremental growth of our consumer base in China, our AAC number, by 10 million this quarter. This is proof that the strategy is working.

Of course, while leveraging Taobao Deals to satisfy this kind of demand, we're also hard at work building highly efficient end-to-end supply chains direct from manufacturer or producer to

consumer, from both industrial manufacturing bases and agricultural production bases. This is another objective of our investment in Taobao Deals.

Second, let me address the question about connectivity. We're aware that there have been recent media reports in this connection and this will be a question of interest, I'm sure, to many investors.

Our view on connectivity has always been consistent and extremely clear. We believe that connectivity is a core value of the Internet. And we also believe that openness is the foundation for all Internet companies to build a digital ecosystem. When you can achieve larger circulation of users, of information, of data, not only within, but across and among different platforms, that certainly will be conducive to realising greater social value, to a greater extent than the smaller circulation within the same platform. So we do see cross-platform openness and connectivity as a positive direction for reform that could unlock greater dividends.

We note that this issue of connectivity and openness is also of concern to merchants and consumers. For merchants and, in particular, for SMEs, unblocking external links would reduce their traffic acquisition costs, help improve their operating efficiency, and make it easier for them to do business. Similarly, for consumers, unblocking external links, allowing the sharing of content from other platforms, and making more payment choices available would certainly bring a greater level of convenience to them as well. So we see this as a common demand for many participants on all the different platforms.

We also take note of the launch by MIIT at the end of July of a regulatory review and rectification project on internet companies with a particular focus on practices like the discriminatory blocking of links to other platforms and disruption of products or services offered by other companies.

We see this review and rectification project as highly necessary. We attach great importance to this project, and will, of course, ensure our full compliance with all regulatory requirements. And to borrow a recently popular saying from television: we stand ready to work with other platforms to find common ground and move forward together.

Eddie Leung (Bank of America):

(Original)

Good evening, guys. Thank you for taking my question. Just two quick questions about regulation. The first one is, well, we have seen some regulatory focus on data, in general. So how might that affect our compliance and IT infrastructure costs? And then, secondly, in the past few months, we have also seen media reporting regulators seem to be looking at the use of heavy subsidies in the industry or including some community group-buy businesses. So how might that affect our investment strategy and user acquisition tactics in some of these new initiatives? Thank you.

Daniel Zhang:

(Original)

Okay, let me answer these two questions.

First, about data. Well, I think actually, in recent months, the Chinese regulators, in June, they issued the Data Security Law. And in recent months, they also have issued the guidance and

also are waiting for comments about the data security review. We believe this is very, very important. And we believe these laws and legislations will safeguard the long-term development of digital economy because as digitalisation is an inevitable trend. It is a common understanding that data is a core asset for a company, for people, and even for country.

So, adopting these legislations relating to data security is very important. And China is not the only country doing this. Actually, when you look at what happened in US and Europe, regulation on critical information infrastructure, personal data protection, so on, so forth, has been – already been implemented.

So for Alibaba, digitalisation is core of our business. Data security is always the core tenet of our business. And as always, we pay our highest attention to this topic. And right now, we are carrying out self-compliance checks on the latest regulatory requirements. And we strongly believe that to further strengthen our data protection will enhance the long-term health and development of the digital economy.

For the second question about the subsidies and the way of acquisition of new customers, generally speaking, I think we are very happy to see the recent actions and guidance from the regulators for an orderly market. As always, we believe that subsidies cannot create the long-term value of the business, cannot create long-term value of the customers. So, if you look at the Alibaba history, actually, we never grow our business based on subsidies.

And we strongly believe that the key thing is still the value creation for the long term. So, that's why, this year, when we plan our incremental investment, we always believe – focus on the value creation. And we think that for other companies who are continuously loss-making, but still try to enlarge the scale by subsidies. I think, at the end of day, they have to let the market see the real results of how to make profit.

Alex Yao (J.P. Morgan):

(Translation)

Thank you. I have two questions.

First, I'd like to ask about the KPIs you are applying and will be applying to evaluate the success of these incremental investments. We see clearly in the financial results that you've released the spending side of the equation in terms of where these investments have been channelled, but could you tell us a little bit more, please, about the ROI on those investments and how you'll be tracking that? What are the KPIs you'll be looking at internally; will it be user growth or other KPIs, perhaps?

Second question, by way of follow-up to the earlier question about data, I'm wondering how these new regulatory requirements and developments will, perhaps, affect Alibaba's ability going forward to make use of data, to collect data, process data, leverage data, especially for monetised services like advertising. Will you be making any changes in light of these regulatory developments?

Maggie Wu:

(Translation)

Thanks for the questions, Alex. I'll take the first one and then hand over to Daniel to address the second.

Indeed, if you look at our results for this quarter, and the slide in the deck we distributed to investors presenting investments in strategic areas, we clearly set out our capital expenditures and the major business areas into which they are being channelled. These include our Community Marketplace business, Taobao Deals, Local Services, as well as our international business, Lazada, as well as New Retail and, to a lesser extent, Cainiao.

To your question—these are the investments, and how are they performing? —I would refer you to the right-hand side of the same slide where we showed how that spending is paying off. In virtually all of those different areas, we are making rapid progress. For example, the Community Marketplace business achieved GMV growth of 200% in the first quarter. The gross floor area of our regional distribution centres has been increased by 260%. So that's an upfront investment in capacity that will pay off down the road with higher orders and higher GMV. We also reported that Idle Fish's MAU figure has surpassed 100 million, and Taobao Deals' AAC figure has exceeded 190 million. Ele.me orders are up by 150% YoY⁸.

How are we assessing progress? Well, in different business areas I think different metrics should be looked at to understand the return on investment. Certainly, in the consumer business, the size of the user base is a very important metric. As you've seen, the Alibaba Group's total AAC number in China and overseas, taken altogether, has now reached 1.18 billion. Our domestic user base in China has reached 912 million. So, the overall China plus overseas user base grew by 45 million this quarter. Also, as Daniel has previously stated, we have a goal in the foreseeable future, within, say, three quarters, to grow our domestic consumer base in China to one billion or more. Now, you may say it's not a very big stretch to get from over 900 million to one billion, but that's actually a huge difference if you think of that user base interacting with all of these different businesses, be it the reported numbers of Local Consumer Services⁹, be it Idle Fish, be it Taobao and so on. We're talking about growing the user base while also significantly enhancing stickiness, so that those users avail themselves of all of the different services.

So coming back to how we are evaluating progress in the different businesses, I would say that firstly we are looking at the user base and user uptake of different services, as well as the user experience. But in terms of our user base and the figures I just shared with you, something very important to understand that differentiates us from the other platforms and makes those numbers even more meaningful is that our users are accessing a whole range of different services within the Alibaba ecosystem and can do so on a 'cross-app' basis, as different services are available from across our various businesses within each app.

Secondly, when it comes to applications, we are tracking, of course, order growth and GMV growth and we'll continue to report to you on that.

And then the third dimension is user experience, which is being driven by our investments in infrastructure including in improved supply capabilities and fulfillment capabilities. We'll certainly be sharing more with you on this front. For example, in our community marketplace

⁸ Mistranslation. According to original sentence, it should be "Ele.me orders are up by 50% YoY, and Lazada's orders are up by 90% YoY".

⁹ Mistakenly stated in the original sentence. Alibaba Group did not report Local Consumer services' number of users this quarter.

business, our on-time delivery rate is now very high. Going forward we will be sharing progress reports with you all in each of these three dimensions.

Daniel Zhang:

(Translation)

Let me answer the question about data. As I said earlier, Alibaba has always applied strict standards with respect to the ways in which we collect data and utilise data. As new legislation is developed, we will continue to ensure strict and full compliance with the requirements of the law and detailed rules for implementation. It is our commitment to continue to deliver robustly on our commitment to data security.

Your question also touched on the potential impact of new regulations around the collection and utilisation of data, and whether these could impact our revenue growth and our business growth. I would simply underscore that Alibaba has never looked at data utilisation or algorithm utilisation as an isolated/standalone KPI or a single factor that we rely on in growing the business.

Let me give an example. In advertising business of our consumer business, we have never sought to leverage data or algorithms to maximise monetisation or revenues. As a consumer platform, we prioritize user experience and product quality over click-through rates and revenue maximisation. User satisfaction is key for us, and we've always approached the utilisation of data with the intention of generating business value while protecting the user experience and creating value for the community.

Therefore, we see the enactment of data security legislation and stricter requirements around the use of data as positive: companies that comply robustly will be better positioned to create long-term value for society and will enjoy more opportunities for growth.

Rob Lin:

(Original)

Thank you. Just a minor correction on the English translation before. I think, we meant to say Ele.me food delivery's order growth was 50%, not 150%. Next question.

Piyush Mubayi (Goldman Sachs):

(Original)

Thank you for taking my questions. I have two questions. The first is on the cloud growth rate which is down to 29% from 37%. Could you just take us through what happened in the quarter that resulted in that step down in growth rate when we had seen the impact of the customer moving out in the previous quarter? So, how much of it was that customer? And also if you could just shed some light on what the core growth rate for the cloud business in China is, that could be helpful.

And the second is in looking at CMR, could you just give us a feel for how the CMR is trending versus the core GMV for your business? And any colour on how GMV projections would look like potentially through the next quarter. And I ask that because through the quarter or through the past quarter also, we had, even based on NBS data we had a sluggish May but a remarkably better June and I presume that a lot of the improvement in June was fostered by you and if

that pace of growth is a function of how you are fostering growth I wonder how the rest of the year looks. Thank you.

Maggie Wu:

(Original)

Well, thank you, Piyush, for your questions. Let me answer the two and then, maybe, Daniel will supplement.

So, for cloud revenue, we talked about this one single top cloud customer's impact to our revenue. So, without this impact, our cloud revenue would have been showing close to 40% year-on-year growth. And we do see strong growth in many industries within, our cloud business like Internet, financing, retail sector, etc. Talk about this one customer impact: We expect this impact to continue for the remainder of the fiscal year, until the full exit of this customer's international revenue.

So, looking forward, as you have seen, there are many changes and also new rules and regulations coming out. There might be an impact on other customers. For example, like online education customers. However, overall, we still believe the addressable market for China cloud service is still huge and we just kept focusing on all of these solutions, you know, products and technology are great, ensure the customer experience, and to grow the business. So, that's for the cloud. There will be some near-term bumps and continued impact from that top customer.

One more thing to add to the cloud revenue is about the concentration risk you might have in mind. So, if we take out that one customer, our top 10 external customers' revenue contribution to our total revenue is single digit. So, we are pretty diversified in the cloud revenue.

So, question two about CMR growth. The CMR growth has this linear relationship with the GMV growth. So we see that relationship still there. One thing I want to highlight is that CMR as a percentage of total revenue right now is 39%. So, we do have a lot of new revenue streams coming in and, we can grow the revenue pie.

Going forward, GMV growth. I think, with the total national GMV growth, you can tell from the NBS data, we are quite representative to the total pie. If you look at our over 8 trillion total GMV¹⁰ as a percentage of total China consumption is becoming, you know, very important and essential. So, it can't be very different from the whole national online GMV growth.

One thing to add before I give to Daniel is that the future revenue stream, I think, whatever we are investing nowadays, including, all of these new strategic business areas, including all these infrastructures like supply chain capability and fulfilment capability construction, all this aim to provide value, additional value to our customers. Once we get the scale of the business, development of the business and the customers keep coming to use our services, there will be opportunity for us to monetise the value provided. So these going to be new revenue sources to our overall group revenue. Thank you.

Daniel Zhang:

(Original)

¹⁰ Alibaba's total GMV of fiscal year 2021 in China was approximately RMB 8 trillion.

Just to add a few words on the cloud business. I think, the most important thing to look at the cloud business is about the total addressable market in the long-term and, I think, all the people can recognise that today is just the beginning stage.

And just now Maggie shared with you our business situation from a customer portfolio perspective. Now, I just want to add a few words on it from a product perspective. I think, today, for many enterprise customers, how to run an efficient infrastructure, basically, is an entry point, services they need when they decided to move to cloud.

And over time, we are happy to see that they get used to – when they move to the cloud, they will have a higher demand in terms of how to collect and, especially, the computing and the usage of the data. So, that's why they have a high demand not only on the data storage but also on the data analytics, on the data base, and even data security relevant services.

So, actually, this is exactly what I said in my remarks, that in this particular quarter, if you look at growth rate by product, by services, actually the services for data usage, data storage and data analytics, data securities, actually, their growth rate is higher than the average. So, I think, it's more like we have this entry point services as IaaS, and then going forward, we try to upsell and cross-sell many more services to our enterprise clients when they are in the process of digital transformation.

Jerry Liu (UBS):

(Translation)

Yes, thank you, management. I have two questions. The first is on the investments which we have been discussing. Marketplace-based core profit growth has slowed; what are the priorities for investment there? And in particular, how has Taobao live streaming been developing lately? Thanks.

Daniel Zhang:

(Translation)

I'll take the question and, I think, the answer is simple. The change in marketplace-based core profits and in EBITA is a result of our incremental investments into our new marketplace businesses. When we used to talk about marketplace-based core, it was Taobao and Tmall. But today we're building several new marketplaces, each with its own unique and compelling value proposition, and collectively forming a matrix of marketplaces, not just a single marketplace. So, marketplace-based financial results need to be looked at from a different perspective than before.

In terms of live streaming, we see that not merely as a new approach to selling goods online. Rather we see it as an integral part of a merchant's overall approach to digital operation.

So, one of the key advantages that Alibaba brings to merchants is our ability to provide a multi-scenario, multi-format operating ecosystem that is supported by multiple technologies and that supports continuous business operations 365 days a year. Live streaming is an important part of that, but is just one part.

What merchants really need is the ability to conduct lifecycle management of their customers, the ability to track and measure operating efficiency, revenue growth, profit growth throughout

that lifecycle. Not just the ability to track the success of one or two live streaming sessions. That's one part of the process but the bigger picture is the customer lifecycle.

So, going forward, we will continue to develop our comprehensive digital commerce ecosystem and provide a diverse suite of services to support and enable merchants. In this way, we can support our merchants in the long-term creation of value, and that is the best guarantee of long-term value for consumers.

Rob Lin:

(Original)

I believe that is all of our time for today. Thank you everyone for joining today. If you have any questions or follow-up, please do contact me and the IR team. Thank you very much.

[END OF TRANSCRIPT]